



Stanford eCorner

George Doriot and the History of Venture Capital

Spencer E. Ante, *BusinessWeek*

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The emergence of modern venture capital dates to the post-WWII era, and, despite Silicon Valley's dominance in the field today, it was born on the East Coast. BusinessWeek editor Spencer Ante offers a history of corporate investment structures. The notion of investing in a business with money obtained beyond one's personal family - the very crux of this high-stakes business segment today - was a democratization of the business world hitherto unseen.



Transcript

In 1946 - most people think venture capital was created in the west coast but it actually wasn't. It was created in the east coast and it was created after World War II. And Doriot became the president of American Research and Development Corporation which was one of the first venture capital firms. It wasn't the only venture capital firm, there were actually a few others. The Rockefellers had a firm, J.H. Whitney. But what distinguished Doriot was that he was the first guy to start raising money from non-family sources, i.e. he was raising money from more than just wealthy families. And this is really significant because it greatly expanded the amount of capital that entrepreneurs could tap into. And so in a sense, and I argue, it democratized a very clubby world and benefits us all.

Of course, there was a lot of skepticism about this back in the day, now we all take it for granted. But the famous inventor Charles Kettering predicted that ARD would go bust within five years, but Doriot proved him wrong over the next three decades. ARD financed over 100 companies on its existence, many of which became huge successes in their fields. Companies nurtured by ARD include Digital Equipment Corporation, its most successful investment. But also a number of other great companies such as Cordis, the medical device maker, and the technology manufacturing company, Teradyne. So I came to see Doriot, is in a sense, the leader of a social movement, and he exerted his influence through not only his venture capital firm but he was a very public figure. A lot of venture capital firms stay very private, they're very secretive. But Doriot saw the benefits of being more public about what they were doing because he was trying to create a movement of entrepreneurs, not only in the United States but across the world. And he did this through his writings, through his speeches, through the annual meetings of ARD which was sort of like the first high tech trade shows. He would invite people and the public to come in and they would show off all their companies and created a lot of interest in the media.

And as one investment banker from Lehman Brothers said, "Doriot was very important because he was the first person to believe there was a future in financing entrepreneurs in an organized way."